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NATIONAL DEFENSE UNIVERSITY

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***SUCCESSFUL FIRST REFORMS – THE TOUGH ONES LIE AHEAD***

A STRATEGIC ASSESSMENT OF  
MEXICO, CENTRAL AMERICA, THE CARIBBEAN

FOR THE SECRETARY OF STATE  
BY THE CHIEFS OF MISSION

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**TO: SECSTATE, WASHDC**

**FROM: Chiefs of Mission: Mexico, Central America, Caribbean**

**SUBJECT: Successful First Reforms -- the Tough Ones Lie Ahead:  
COM Assessment of Middle America**

During the Chiefs of Mission meeting last week in Managua, you asked us to consider future directions for American foreign policy in Mexico, Central America and the Caribbean (hereafter, "Middle America") Following is our collective assessment, outlining USG interests as we see them, the threats and challenges found in the region, and policy suggestions for your consideration

### **Background: Hot and Cold**

Since the proclamation of the Monroe Doctrine, USG relations with Middle America have swung from periods of intense interest to periods of benign neglect, characterized by those in the region as "unilateralism " In blunt terms, our relations have been based on inequality of power and frequent USG military interventions to preserve our political and economic interests The region took on strategic importance during the Cold War with the development of oil exports and Soviet involvement, such as in the Cuban missile crisis, defining our interests Perceptions in the region are that the US is arrogant, condescending, and concerned solely with Eurasia

### **Global and Domestic Changes Redefine Context of Our Relations**

Significant changes during the past decade have changed the context of USG-Middle American relations

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***Cold War confrontations are gone:*** The collapse of the Soviet Union has ended bipolar competition in the region, with the exception of Cuba, communism has been discredited,

***Democratic reforms underway*** Peace accords in Nicaragua (1990), El Salvador (1992) and Guatemala (1996) with revolutionary movements and communist insurgencies of the 1970's and 1980's are seen as starting points for new opportunities in the region. All countries in the region, except Cuba, have now had at least two successive democratically-elected governments. New political parties throughout the region have successfully challenged traditional elites via ballot boxes. PRI's 70-year hold on the Mexican Congress was broken during the last election.

***Economic restructuring already yielding results*** Every country has reformed and restructured its economy during this decade. Governments have sharply reduced trade and investment barriers, moving from import substitution to export-led policies. Deregulation of economic activities and privatization have replaced strong state control of production and distribution. Today, the emphasis is on competitive markets, private enterprise, and attracting foreign capital. Inflation -- the scourge of Latin America -- has been brought under control, with rates falling from a high of 2700% in 1991 to an average of 10% in 1997. The severe debt crisis of the 1970's and 1980's has been carefully managed, Mexico's 1995 peso crisis was averted with USG support. Massive outflows of capital have been reversed. Last year the private sector poured \$50 billion of investments and loans into the region.

***Regional trade is exploding*** NAFTA, with an annual production of \$6 trillion and nearly 400 million consumers in Canada, Mexico and the US, is working well.

During the first years of the agreement, Mexico experienced growth of 85% in exports, 37% in imports. Mexico has surpassed Japan to become the US's second-largest export market. Other countries in the region want in. Five Central American countries (Panama abstained) have adopted a "Common Agenda" of microeconomic reforms to encourage interregional trade, which grew from \$600 million in 1990 to \$2.8 billion in 1996. 2600 American firms operate in Mexico, thousands of American firms are making new investments in the region. At the December 1994 Summit of the Americas in Miami, 34 heads of state committed themselves to the goal of a Free Trade Area of the Americas (FTAA) by 2005.

***Illegal drug trafficking increasing*** Most Caribbean nations serve as air and maritime transshipment points for illegal drugs flowing from South America's Andean region into the US. Following a crackdown on Caribbean trafficking, Mexico emerged as the primary transshipment point -- 75% of Colombian cocaine bound for the US crosses the Mexican border. Mexico also supplies 20-30% of all heroin and more than 50% of all imported marijuana to the US market.

***Illegal immigration is a "safety valve":*** Poor economic conditions and high unemployment in Middle America have made the US an attractive destination for an estimated 500,000 per year from the region, Mexicans account for one-half of the US's estimated 5 million illegal residents. A growing US uneasiness about illegal immigration directs increased attention, and sometimes anger, toward Middle America.

***Changes in US domestic politics:*** An increasing multiplicity of US ties across a wide spectrum of social, political and economic international interests have brought an intertwining of US domestic and international policies. Partisan politics within a more

assertive Congress in foreign policy matters are shaping a new agenda, there has been a rapid expansion of significant actors in the US foreign policy process, many with single interests. Congress seems less interested in expanding regional free trade fast track authority failed. Cable TV, internet, and sound bites are shaping public opinion.

### **USG and Central America Interests: a Growing Convergence**

Economic prosperity and political stability are the twin pillars of USG interests in the region, fully shared by regional leaders. Many countries also share strong concerns about environmental sustainability, especially the US-Mexico border area and preservation of tropical forests in Central America. Prioritized USG interests are

- 1 ***Economic:*** increased regional trade, uninterrupted flows of oil from Mexico, security of the Panama Canal, wide economic prosperity throughout the region
- 2 ***Political:*** stability in the region through democratization and broadening participation in democracy, security of our borders, increasing recognition of human rights, controlling illegal immigration
- 3 ***Illegal Drugs:*** decreasing drug production and trafficking, strengthening domestic governments to deal with rising power of drug cartels
- ***Protection of US citizens:*** well over one-half million Americans live and work in Middle America
5. ***Environmental Stability***

## **Poverty and Drugs Top List of Threats and Challenges**

We do not foresee any military or WMD threats to the US coming from Middle America. Drugs and illegal immigration pose immediate destabilizing threats to the US - and to governments in the region. Beyond these immediate threats lie powerful underlying causes that make the attractiveness of the drug trade outweigh the risks. The economic, political and social conditions which fostered earlier revolutionary movements have not -- repeat not -- changed, giving rise to "reform skepticism" which can only be countered by another round of reforms, including improvements in education. Massive poverty and extreme inequality jeopardize political reforms, especially to tenuous democratic governments. Linking investment capital with social investment will be essential for political stability and social peace. Causes of discontent include

***Rising Poverty:*** Current average GDP growth rates of 3%, while a significant improvement over growth rates of less than 1% during the "lost decade" of the 1980's, are not enough to reverse the overwhelming trend of rising levels of poverty in Central America. Over 70% of the region's population lives in crushing, grinding, poverty, that rate has jumped by 52% during this decade of democratic and economic reforms. The rush to urbanization, as peasants leave the land in hopes of employment in the cities, has increased urban poverty by 60%. Real wages have lagged, unemployment has increased sharply. There are no "social safety nets," and low-quality social programs are plagued by inefficiency. Only worker remittances, estimated at several billion dollars per year, have kept some of these economies afloat.

***Income Distribution:*** Middle America continues to have the most unequal distribution of income and wealth of any region in the world, and current trends point to

further deterioration. The poorest 40 % of the population receive only 10 % of the region's annual income, while nearly 60 % of the income goes to the wealthiest 20 %. Indigenous Indian groups, racial minorities and women suffer the most. Combining growth with equity will be a challenge in coming years.

***Fragile Democracies:*** Early moves toward democracy have not lessened political and social structural rigidities, despite demands from indigenous Indians for fuller participation. Challenges to strengthening democracies will include fighting corruption, supporting human rights, encouraging minority integration, adapting to rapid social change, building broader institutions such as courts, and strengthening civil societies. Political systems that are transparent and accountable, that function effectively to deliver public services, will be a necessity.

***Transnational issues:*** Illegal drug trafficking is the principal transnational threat from Middle America, leading to destabilizing consequences such as increased links to organized crime, regional violence, social unrest, corruption and political instability. Violent crime in Jamaica, for example, is linked directly to drug gangs which have already established bases of operations in American cities. Hard currency associated with transshipment of illegal narcotics is growing and replacing legitimate agricultural businesses. Drug money laundering is undermining the international financial system.

Concern that illegal immigrants take jobs from American workers has made illegal immigration the other principal transnational threat from Middle America. Though the Border Patrol has received record funding for personnel and facilities upgrades, there is the fear that increased political turmoil or economic backsliding in Middle America will result in unprecedented numbers of illegal crossings. We saw this



phenomenon shortly after the Mexican peso devaluation and recession of 1995 when INS recorded significant increases in apprehensions on the US-Mexico border

### **US Objectives**

- support efforts to liberalize economies and reduce poverty
- build and support stable democracies
- lessen the flow of narcotics, reduce their hold over economies, governments
- reduce illegal immigration
- develop leadership committed to modernization, compromise and reform
- remove all barriers to the movement of goods and capital across borders
- ensure the security of the Panama Canal

### **Constructive Engagement is the Key: US Strategy Recommendations**

American policy has vacillated between benign neglect and military intervention. Current cost-cutting measures signal a lowered USG priority of this region as other areas claim our attention. We are withdrawing instruments of influence in the region -- closing embassies and USIS facilities, eliminating or cutting AID budgets and activities -- at a crucial time of reforms which we have promoted in the region. These need our continuing support. We recommend strengthening our public diplomacy efforts.

We urge greater *multilateral and cooperative* efforts to control the illegal drug trade. We urge a re-examination of the unilateral practice of "certifying" countries. We endorse current cooperative efforts of law enforcement and the military, focusing attention on the fact that drug policy is linked to security. The rise of powerful drug

cartels may jeopardize fragile democracies in drug-producing and drug-transiting nations, raising the specter of possible US intervention

Economic development must be an integral part of curtailing drug flows, as well as illegal immigration. We recommend an expanded use of USG agencies (such as TDA, EX-IM, OPIC) and NGO economic development assistance, combined with incentives, to attract private sector investments to the region.

By hosting the Miami Summit in 1994, the US demonstrated its economic commitment to expanding/promoting free trade in the region. Continued US participation and leadership is necessary to achieve the FTAA by 2005. If the US wavers in its support, sub-regional agreements may address non-tariff issues in ways that are not compatible to US interests. Our strategy of expanding free trade agreements in the region, especially the establishment of FTAA, will require fast track authority and other measures to encourage further economic liberalization. Momentum for reform is underway -- we should support it.

Drawing on the success of the 1994 Summit, we are well placed to build a new partnership based on mutual respect. We recommend an annual Heads of State Summit, held under the auspices of OAS, as the means to accomplish this.

Governments across the region have successfully completed the first wave of democratic and economic reforms. The really tough reforms lie ahead. The USG has urged these reforms for many years. The region needs and deserves our full support to move ahead.